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STEVEN RAUSCHENBERGER
STATE SENATOR
33RD DISTRICT

May 1, 1997

Testimony for the US House of Representatives
Committee on Commerce

Good morning. I want to thank the Chairman and the Committee for the opportunity to testify today. As a state legislator I realize how valuable your time is and I will be brief and would be happy to respond to any questions.

I think you need to know that many state legislators are grateful for your leadership on the issue of electric deregulation. Without your work on this issue I do not believe that the States would be preparing for and in a few cases, have already begun the process of deregulation. The opportunity to rationally restructure the electric utility industry holds tremendous promise for all Americans. The potential benefits of this opportunity are clearly of an unprecedented magnitude. In Illinois we believe we have the opportunity to craft a deregulation plan that will benefit all stakeholders and most importantly, help position Illinois consumers, commercial interests, and utilities for a bright competitive future.

Without question we still have some very difficult issues to resolve here in Illinois. Key unresolved issues like stranded or stranded cost; phase to market; residential aggregation; deregulation trigger and completion dates; and residential rate relief still exist, but your Committee's leadership in raising this issue has led here in Illinois to nearly two years of study, discussion, and negotiation. Illinois is nearly ready to progress to debate of legislatively **drafted** plans to deregulate our utilities.

I believe that Illinois legislators welcome and support your continued involvement in the deregulation issue. We support your definition of the issue from a national perspective. We generally support a federal date certain for the initiation of state deregulation plans.

I also believe that we would overwhelmingly suggest to you that you preserve the States right to flexibility in their plans to accomplish their deregulation. The States face a dramatic range of variations in their utility industries. Illinois, for example, has some very special challenges in dealing with two nuclear generating utilities. I would hope that this Committee and the Congress in general hold to their current patient course and allow States to "customize" their deregulation to their individual circumstances and avoid the problems of a well intended, but necessarily "one size fits all" national solution.

In addition to your work to date, and your continuing monitoring of the deregulation process, I would only ask that you consider expanding your efforts to educate and guide state decision makers by proactively providing your Committee's national perspective. It is very valuable to state legislators and regulators to understand your larger view and the not always obvious, nationwide linkages in our electric power industry.

In brief summary, thank you this opportunity and your attention. We appreciate your leadership and your patience on this issue. We are proud in Illinois to be working hard on a reasonable, comprehensive solution. And we would welcome your sharing of your insights and information.

Submitted by: State Senator Steven J. Rauschenberger

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Testimony of Martin R. Cohen, Executive Director, Citizens Utility Board
Before the Subcommittee on Energy and Power, Committee on Commerce,
U.S. House of Representatives
Chicago, Illinois - May 2, 1997

Introduction

My name is Martin Cohen, and I am the Executive Director of the Citizens Utility Board (CUB). CUB represents over 150,000 residential and small commercial customers throughout the state of Illinois. I appreciate the opportunity to testify on the critical issue of electric utility restructuring.

CUB's Perspective on Competition and Small Consumers

As a representative of ratepayers in the state of Illinois, I would be one of the first to state that the current system of regulation is not benefiting consumers. Residential customers of Commonwealth Edison, which serves Chicago and the surrounding suburbs, pay over **11** cents per kilowatt-hour, while residential customers in surrounding states pay just under 7 cents. Yet these customers get no benefits from these high rates. In recent months, the news has been filled with stories of the Nuclear Regulatory Commission's criticism of **ComEd's** poor management of its nuclear power plants. And in the summer of 1995, under-investment in the distribution system contributed to outages that **left** tens of thousands of customers without electricity during an extreme summer heat wave.

Clearly, something has to change. One answer is competition. Given the poor job that **ComEd** and some other Illinois utilities have done in serving their customers, the ability to choose another company seems to be an avenue to lower rates and better service. **We support** the introduction of competition in the retail electricity market, but it must be implemented in a way that ensures that the benefits of competition reach residential customers quickly and equitably.

It is crucial that restructuring legislation contain adequate consumer protections. Such safeguards include the certification of alternative electric utility suppliers, anti-discrimination provisions, customer education, information disclosure, and requirements that small customers are allowed to use their existing meters. Moreover, there must be guarantee that all customers have access to affordable electricity and **market-**

based prices. Thus, customers who choose to or have no option but to remain with the host utility will also benefit from competition.

Without adequate consumer safeguards, we run the risk that residential customers will be stuck with the worst of both worlds — poor service by a deregulated utility and no access to the competitive market.

The Role of Federal Legislation

I have spent the last seven weeks in Springfield negotiating with dozens of parties over the future of the Illinois electric industry. We have not reached an agreement, and I can't tell you whether we will. But I have come to a greater understanding of the appropriate federal role in restructuring the industry.

There are two general purposes that federal legislation can serve -to establish minimum standards for state programs and to address issues that are federal in scope. Regarding the first, it is not my position that Congress should mandate that states restructure the electric utility industry. Nor should federal legislation impose a specific timetable or stranded cost recovery on the states. Rather, federal legislation could establish minimum criteria that must be included in state programs if states choose to pass restructuring legislation. These criteria could include requirements that all customers have the opportunity to participate, minimum consumer safeguards, and an obligation to serve at market-based prices.

There are a number of steps to establishing an effectively competitive electricity market that need be addressed at the federal level. A primary issue is the management of the transmission system. The introduction of competition into the electricity market will produce a multitude of bilateral transactions between electricity suppliers and customers. No longer will power simply be dispatched from a service territory to a geographically defined group of customers. Power brokers will sell power from plants located throughout the country to customers in other geographic areas. There will therefore be a need for an Independent System Operator (ISO) who will oversee the day-to-day operation of the transmission system and ensure that the grid is capable of handling these complex power flows. An effective ISO must be regional or national in scope and therefore cannot be established by a state legislature. A federal law is a crucial step to establishing ISO's and ensuring their true independence.

Other issues that should be addressed at the federal level concern market power. There are two type of market power — horizontal and vertical. Horizontal market power results **from** the concentration of generation resources in the hands of a single entity that can exert control over prices and thwart competition. Such horizontal market power must be prevented by strong anti-trust and merger provisions. Vertical market power results when the same entity controls both the production of electricity and its delivery. Fair competition will only develop if a utility's generation assets are placed into a separate company **from** the transmission and distribution system. To the extent that such companies are **affiliates**, tight restrictions must be placed on affiliate transactions that will prevent abuses of the **affiliate** relationship. Such abuses include the potential for the transmission and distribution utility to use **funds** collected **from** ratepayers to subsidize the below-market pricing of the **affiliate's** generation, or to give the affiliate preferential access to the transmission system.

Environmental issues are also national in scope and although they can and should be addressed at the state level, a national renewables policy and improved national emissions standards are very important

Conclusion

Electricity is a necessity of modern life and we must not place consumers at risk of losing access to energy at affordable prices. I urge that in the development of federal legislation, members of Congress take caution to not dismantle the current system without building a better one and to avoid preempting states in areas of traditional state jurisdiction. I urge caution with regard to Congress mandating a restructuring timetable and a requirement of stranded cost recovery I certainly oppose attempts to preempt state jurisdiction of plant and transmission siting. It will be more detrimental to pass legislation that deregulates the electric utility industry and contains no consumer protections, then to maintain the current system, flawed as it is.

**The remarks of Michael Fitzgerald, Business Manager I.B.E.W.
Local #134 before the U.S. House of Representatives
Committee on Commerce, Subcommittee on Energy and Power
in Chicago, Illinois on May 2, 1997.**

Good morning Mister Chairman, I'd like to thank you for inviting me to speak on the issue of electric utility deregulation and welcome you, and the distinguished members of the Committee on Commerce, to Chicago, home of the World Champion Chicago Bulls.

My name is Mike Fitzgerald. I am an electrician by trade and an attorney by training. I currently hold the position of Business Manager of Local Union #134 of the International Brotherhood of Electrical Workers. The jurisdiction of Local #134 is Cook County, Illinois. I sit before you today as the representative of 3,000 retired and 17,000 active members engaged in electrical construction, maintenance and manufacturing. For the record, Local #134 represents no one employed in the electrical utility industry.

I know the Energy and Power Subcommittee is considering legislation that will give electric energy consumers the right to choose their power supplier. I hold some strong opinions and deep reservations on the subject of deregulation. I am confident the committee will hear, before its work is complete, from a parade of experts on the

subject of electric utility deregulation. I am here today to make sure the committee hears **from** at least one expert on the what it takes to pay a mortgage, send a child to college and save for a decent retirement.

I approach the subject of electric utility deregulation **from** the point of view of my membership, middle class, working people. We, quite **frankly**, are skeptical. Will we truly benefit from electric utility deregulation or are our checkbooks and light bulbs the object of the latest takeover fad? Is this really an opportunity to save a little money or just another vehicle for the barons of Wall Street and the speculators on LaSalle street to transfer the hard earned wealth of middle America into their private bank accounts? My concerns are not those of a radical, but a realist.

I don't know if any of the Members of Congress, here today, were involved in the "deregulation" of the Savings and Loan Industry a decade ago, but that was a prime example of the cause of our fear and apprehension over electric utility deregulation. If memory serves, the financial wizards saw an "opportunity" in the Savings and Loan Industry and convinced the Congress to remove the "regulatory restrictions". The move was heralded, like electric utility deregulation, as a great day for consumers. The pinstriped vultures picked the S&L's clean and the American

taxpayers were left with the carcass, the bill and another finger pointing **scandal-**gate. I have to ask, what lessons have we learned?

Electric utility deregulation has promised substantial savings over current electric bills. Working people are quite familiar with promises of big savings and generally expect big savings to cost them more in the long run. When the academicians build the economic models that forecast savings, I hope they factor for the inevitable decrease in quality and reliability deregulation is guaranteed to bring. When your son or daughter's two thousand dollar computer, or your new thousand dollar high definition television set, or your family's refrigerator with five hundred dollars worth of groceries is destroyed in an instant by a power surge or a brown out, your ten dollar a month savings won't seem like much. I've seen first hand the destruction electricity can cause to electrical motors and sensitive electronics. It's a very real problem and possibility which, I fear, is being glossed over.

The working people I represent also pay a lion's share of the taxes which support state and local governments. Speaking locally, our electric utility, Commonwealth Edison, is a major direct and indirect source of tax revenue for Chicago and Cook County. Almost every unit of local government receives electric power for municipal buildings, parks and play grounds at no charge. This, in turn, reduces

operating budgets, the tax levy and ultimately the tax burden on working families. Unlike Commonwealth Edison, an Illinois company, utilities based in other states, Canada or Mexico would pay no income tax to the state of Illinois. Any economic model that does not accurately account for the loss of income, payroll and property taxes now contributed by Commonwealth Edison to our state and local governments is **merely** a continuation of the myth of savings. Working people know if a hole is blown in a government's budget the taxpayers will, sooner or later, shoulder the difference. If we spend our electric utility savings on higher taxes, what have we really saved.

My final observation on the subject of deregulation lends itself to my deep concern over our country's increasing vulnerability to foreign influence and control of our national **economy**. In the flood of information pouring out of both sides in the debate over electric utility deregulation, no one has mentioned the potential danger of consolidating the ownership of electrical power. As a regulated industry, each utility was responsible for the long range planning of **electrical demand**. Who will assume that critical responsibility in a deregulated electric utility industry and where are the safe guards against foreign ownership. I can see no quicker or slicker way to cripple the industrial or technological output of the American economy, or to negatively affect the quality of life of every American than to purposely and methodically

underestimate the future demand for electricity. The problem once recognized would take years to correct, and where would the capital come from, foreign owners? I'm old enough to remember waiting in line for gasoline in the mid-seventies. I wouldn't want to be waiting to turn on my lights in my mid-seventies.

I am not opposed to electric utility deregulation. I am opposed to hasty, ill-conceived electric utility deregulation, I implore the members of this committee, as you return to Washington and deliberate this issue, to go slow. Do it right, and remember, when the Congress rolls the dice it's middle class America whose chips are on the table. Thank you.